

B8595G
2.665-2
1995

Copy 3



**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

S. C. STATE LIBRARY
FEB 2 3 1994
STATE DOCUMENTS

GREENVILLE TECHNICAL COLLEGE

AGENCY

JULY 1, 1992 - MARCH 31, 1994

DATE

GREENVILLE TECHNICAL COLLEGE

PROCUREMENT AUDIT REPORT

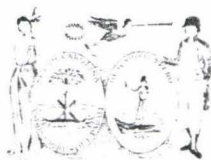
JULY 1, 1992 - MARCH 31, 1994

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--------------------------------|-------------|
| Transmittal Letter..... | 1 |
| Introduction..... | 3 |
| Scope..... | 4 |
| Summary of Audit Findings..... | 5 |
| Results of Examination..... | 7 |
| Conclusion..... | 13 |
| Follow-up..... | 14 |

NOTE: The College's responses to issues noted in this report have been inserted immediately following the issues they refer to.

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES



DAVID M. BEASLEY, CHAIRMAN
GOVERNOR

RICHARD A. ECKSTROM
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

HENRY E. BROWN, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

HELEN T. ZEIGLER
DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

WILLIAM E. GUNN
ASSISTANT DIRECTOR

January 23, 1995

Mr. William E. Gunn
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Eddie:

We have examined the procurement policies and procedures of Greenville Technical College for the period July 1, 1992 through March 31, 1994. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and College procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of Greenville Technical College is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide


management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place Greenville Technical College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of Greenville Technical College. Our on-site review was conducted May 17 through June 8, 1994, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the College in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of Greenville Technical College and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions. The examination was limited to procurements from local funds including federal funds, local contributions and student collections which is the procurement activity managed by the College. As in all South Carolina technical colleges, State funded procurements are managed by the State Board of Technical and Comprehensive Education.

We selected a judgmental sample for the period July 1, 1992 - March 31, 1994 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period July 1, 1992 to March 31, 1994
- (2) Procurement transactions for the period July 1, 1992 to March 31, 1994 as follows:
 - a) Eighty-eight payments exceeding \$500 each
 - b) A block sample of 500 sequential purchase orders
- (3) Four professional service contracts and three construction contracts within permanent improvement projects for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Reports for the audit period
- (5) Information Technology Plans for Fiscal Years 92/93 and 93/94
- (6) Internal procurement procedures manual
- (7) Blanket purchase agreement file

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of Greenville Technical College, hereinafter referred to as the College, produced findings and recommendations as follows:

| | <u>PAGE</u> |
|---|-------------|
| I. <u>Sole Source and Emergency Procurements</u> | |
| A. <u>Inappropriate Sole Sources</u> | 7 |
| Four sole source transactions we believe were inappropriate as such. | |
| B. <u>Reporting</u> | 8 |
| Two transactions were not included on the College's quarterly reports. One was a sole sources and the other an emergency. | |
| II. <u>General Code Compliance</u> | |
| A. <u>Blanket Purchase Agreements</u> | 8 |
| 1. Unauthorized BPA Releases | |
| Four instances were noted from one Department where purchase commitments were artificially divided. | |
| 2. BPAs Used In Lieu Of Competed Contracts | |
| We believe the College would be better served by evaluating its larger BPAs to determine where competed contracts should be used in lieu of non-competed BPAs. | |
| B. <u>Procurements By Bookstore Purchase Orders</u> | 10 |
| The College used Bookstore purchase orders to make procurements which were subject to the Procurement Code. This practice was not authorized by the College's procurement manual. | |
| C. <u>Real Property Leases</u> | 11 |
| We noted discrepancies in the list of real property leases provided to us by the College and the Office of General Services. | |

PAGE

D. Procurement Without Competition

11

One procurement for billboard advertising services was incorrectly not considered subject to the Procurement Code.

III. Internal Controls

11

We made two recommendations which will result in stronger internal controls over purchase orders and result in cost savings to the College.

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements for the period July 1, 1992 through March 31, 1994. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the South Carolina Consolidated Procurement Code. We found most of these transactions to be correct but did note the following exceptions.

A. Inappropriate Sole Sources

We noted four sole source transactions which we believe were inappropriate. They were as follows:

| <u>PO#</u> | <u>DESCRIPTION</u> | <u>AMOUNT</u> |
|------------|-------------------------------------|---------------|
| S025077 | Computer services (Jan-Sept '93) | \$8,625.73 |
| MOO3188 | Computer services (Jan-Sept '93) | \$1,763.49 |
| S025862 | Used printer | \$1,250.00 |
| S031525 | Used medication carts | \$2,993.60 |

For the computer services we recommend it be procured through an inter-agency agreement. Sole source was not necessary. The College procured used equipment and considered sole source as the only option. However, competition should be sought when the College procures used equipment.

COLLEGE RESPONSE

In the two instances of purchased computer services, the College agrees that sole source was not necessary since these services could be procured through an inter-agency agreement. An agreement is now in place and this condition has been corrected. The purchase of used equipment was sole sourced based on the College's information on equipment availability. We agree that competition should have been sought and will do so in future purchases as required.

B. Reporting

We noted two transactions which were not reported on the College's quarterly reports to the Office of General Services as required by Section 11-35-2440 of the Consolidated Procurement Code. As listed below, the first transaction was a sole source and the second one was an emergency.

| <u>PO#</u> | <u>DESCRIPTION</u> | <u>AMOUNT</u> |
|------------|---------------------------------|---------------|
| S028669 | Service/Equipment | \$ 5,259.15 |
| Contract | Cycle XII - Energy Conservation | 279,409.00 |

We recommend amended reports be filed adding these transactions to the College's quarterly reports.

COLLEGE RESPONSE

The purchase of service/equipment was omitted from the report because the amount was undetermined at the time the purchase order was issued. The cross-referencing information was inadvertently missed and not added to a subsequent report when the invoice was paid. The emergency procurement had been discussed in detail and approved by the State Engineer's Office, but was inadvertently omitted from the report. Amended reports have been filed for these two transactions.

II. General Code Compliance

We tested a random sample from the College's check register as well as performed other tests in accordance with our standard audit program. These tests revealed the following exceptions.

A. Blanket Purchase Agreements

In addition to blanket purchase agreements (BPAs) included in our random sample of general procurement transactions, we selected another small sample of BPAs for testing. This additional test revealed the following exceptions.

1. Unauthorized BPA Releases

For the BPAs we tested which were issued at the College prior to July 1, 1993, a provision was included where each purchase commitment could not exceed \$500 each. We noted four

situations, each from the same Department, we believe were artificially divided. They were as follows:

| <u>PO#</u> | <u>CHECK#</u> | <u>DESCRIPTION</u> | <u>AMOUNT</u> |
|------------|----------------------|------------------------------|---------------|
| 1. MO02569 | 108740/110040/112375 | 8 truck tires | \$2610.32 |
| 2. MO02569 | 112375 | 8 recapped tires | 939.80 |
| 3. MO02477 | 112366 | Truck repairs #568 | 678.70 |
| 4. MO02477 | 97441 | Scheduled service - 4 trucks | 615.54 |

On item 1, all eight tires were bought for the same truck over a two week period. On item 2, the eight recapped tires were bought for two different trucks. Four tires each were installed on each truck all on the same day. On item 3, truck repairs on truck #568 were included on two sequentially numbered invoices. On item 4, the scheduled service on the four trucks was for regular maintenance - i.e. oil and filter change, check lube levels, transmission and differential, lube chassis and adjust brakes. The service occurred 9/1/92 through 9/4/92, one truck each day. Because this was planned regular service, this should have been combined and competed.

None of the items cited above were supported by solicitations of competition. Further, because the total purchase commitment exceeded the authorized level of \$500 per call, they were unauthorized.

We recommend that purchase commitments on BPAs not be artificially divided. The transactions listed above should be submitted to the College President for ratification in accordance to Regulation 19-445-2015. Further, we ask that the internal auditor review the BPAs issued for this Department to determine why these instances of non-compliance occurred.

2. BPAs Used In Lieu Of Competed Contracts

Our sample review of BPAs revealed that in some instances substantial increases in funds were added. BPAs by nature do not require competition. However, we performed a detailed study of these BPAs and this study showed that certain items were being procured with frequency. Since these items were easily identifiable and predictable as to quantities, we believe the College would be better served by competed term contracts.

We recommend the College evaluate its larger BPAs to determine if competed contracts would better serve the College. We believed the items identified during the audit when competed will result in a cost savings for these contracts. Also, with competed contracts in place, more flexibility can be offered the departments since the purchase commitment per call would not have to be limited to \$1,500 as it is now. The College should keep in mind that the intent of BPAs as addressed in Regulation 19-445.2100 that states "...is a simplified method of filling anticipated repetitive needs for small quantities of supplies or services".

COLLEGE RESPONSE

Greenville Tech will make every attempt to ensure that all purchases are made with appropriate competition and are not artificially divided. These regulations have been reviewed with the appropriate personnel and the reported transactions will be ratified by the College President.

B. Procurements By Bookstore Purchase Orders

During our audit we learned that Bookstore purchase orders were issued for more than just Bookstore needs. The primary function of the Bookstore is to buy items for resale through the College Bookstore which were considered exempt from the Procurement Code. We noted that Bookstore purchase orders were also issued for the print shop, Central Stores which supplies the College's office supply needs, and the photocopier supplies. The College's procurement manual does not delegate this authority to the Bookstore. This procurement authority lies with the Procurement Department.

We recommend if the College wishes to retain the Procurement authority now located at the Bookstore, that it be specifically delegated that authority through the College's procurement manual. It should also be made clear that items which are not bought

C. Real Property Leases

Our review of real property leases revealed some discrepancies between the list of approved real property leases maintained by the Office of General Services which has authority over this procurement area and the list provided to us by the College. We provided those discrepancies to the College by separate letter.

We recommend the College contact the Office of General Services' Real Property Management Office and resolve the discrepancies.

COLLEGE RESPONSE

The College has reviewed the findings with the Office of General Services' Real Property Management Office. The discrepancies are being resolved and the necessary corrective action taken.

D. Procurement Without Competition

We noted one procurement on purchase order M002131 for billboard advertising services that was not competed by the College. The College incorrectly considered this transaction exempt from the Procurement Code. The exemption referred to by the College only exempts advertising time or space in newspapers, radio or television.

We recommend that advertising services for billboards be done in accordance to the provisions outlined in the Procurement Code.

COLLEGE RESPONSE

The College did not realize that billboard advertising was not exempt from the Procurement Code along with all other advertising. Future services for billboard advertising will be done in accordance with the appropriate provisions.

III. Internal Controls

As part of our audit we performed a study and evaluation of internal controls over the procurement process. We utilized the tools of an internal control questionnaire, inquiry, observation and testing. Our evaluation has resulted in two recommendations over the issuance

of purchase orders which we believe will strengthen internal controls and result in a cost savings to the College.

First, we observed that freight terms were not always addressed by the purchase order, yet freight would be paid when included on the invoice. We suggest that the purchase order address freight charges as being the responsibility of the vendor unless otherwise stated. When provisions for freight charges are not included on the purchase order, it will be clear that the College does not assume responsibility for those charges.

Second, on certain types of blanket purchase orders, specifically blankets for State contract items and sole source items, the College does not include a maximum amount not to exceed on the purchase order. The purchase order was silent to the maximum potential that could be spent against this authorizing document. We suggest, as a way to cap the College's liability against a blanket purchase order, that a maximum amount not to exceed be recorded.

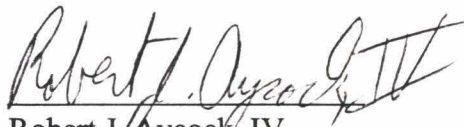
COLLEGE RESPONSE


The College has amended the information on its purchase orders to ensure that freight terms are clearly stated. Future blanket purchase orders for State contract items and sole sources items will include maximum amount.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place Greenville Technical College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Prior to December 30, 1994 the Office of Audit and Certification will perform a follow-up review to determine if the proposed corrective action has been taken. Subject to this corrective action, and since Greenville Technical College has not requested additional procurement certification, we recommend that the College be allowed to continue procuring all goods and services, consultant services, construction services and information technology up to the basic level of \$5000.00 as allowed by the Consolidated Procurement Code and accompanying regulations.


Robert J. Aycock, IV
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification

SOUTH CAROLINA STATE LIBRARY



0 01 01 0192373 7

